

Written Testimony of Bob Popinski
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Before the House Committee on Ways and Means
The Honorable Dustin Burrows, Chair
September 14, 2020

Interim Charge 2. Study and consider possible methods of providing property tax relief, including potential sources of revenue that may be used to reduce or eliminate school district maintenance and operations (M&O) property tax rates.

KEY POINTS

- The Texas Legislature must first find a sustainable method of finance for the property tax compression provided in House Bill 3 before any consideration of additional reduction of school district property taxes
 - The current estimated \$1 billion per year cost of a 2.5 percent automatic property tax rate compression for school districts is unsustainable
 - Any study and consideration of potential public school revenue sources must consider the maintenance of HB 3 formula funding and programs and the additional investment in public education needed due to COVID-19
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Raise Your Hand Texas appreciates the historic passage of House Bill 3 during the 86th Legislative Session, which provided an additional \$6.5 billion in public education investment and \$5 billion in property tax relief for the 2020-21 biennium. However, the automatic 2.5 percent school district tax compression component of HB 3 makes an open-ended commitment that poses a threat to the state's long-term financial stability.

House Bill 3 provided two methods of reducing school district M&O tax rates. First, it provided 7 cents of uniform tax rate relief in the first year of the current biennium. This type of uniform compression has been used before to reduce local tax rates and is fully planned for and funded in the adopted state budget. Raise Your Hand supported this

mechanism for property tax relief because it provides uniform rate reductions and enables each Legislature to weigh future tax relief against other expenditures.

During the second year of the biennium, however, the 2.5 percent automatic tax compression took effect. This provision automatically reduced school district tax rates each year based on the district's local property value growth, creating an ongoing and significant cost to the state. Over time, rates in districts with fast-growing values will diverge from those with less growth, up to a limit of a 10-cent differential. Estimates based on value growth over the past five years indicate the additional state cost will be approximately \$1 billion each year, growing to as much as \$6 billion per year by the 2023 legislative session. The current state revenue streams will not support that level of tax relief without severe cuts to other state programs.

In addition to long-term concerns about the state budget, divergent local tax rates will begin to have a local economic impact. The state will advantage communities with lower school tax rates, thereby increasing values and further distancing them from their neighbors' tax rates. The school districts will have comparable revenue, but rates will automatically adjust in some districts and not others.

We believe members of the legislature should continue the conversation on school funding and its reliance on local property taxes, but it first must discuss the additional state revenue needed to pay for the tax relief already granted under House Bill 3 and it should not ignore the additional investments needed to meet our public schools' needs due to COVID-19.

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